Distr.
GENERAL

IDB.29/4
PBC.20/4
6 July 2004

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-ninth session
Vienna, 9-11 November 2004

Programme and Budget Committee

Twentieth session
Vienna, 8-9 September 2004
Item 6 of the provisional agenda

MOBILIZATION OF FINANCIAL RESOURCES

Report by the Director-General

Responds to the mandate provided by decision IDB.25/Dec.5 in which the Director-General is requested to maintain a continuous dialogue with Member States in order to actively sustain the common resource mobilization effort. Reports on progress made in the mobilization of financial resources and informs on new approaches.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 2	2
Chapter			
I.	STRENGTHENED INTEGRATION OF SERVICE MODULES	3 - 6	2
II.	PROGRAMMING THRUST FOR THE BIENNIUM 2004-2005	7 - 8	3
III.	PROGRESS ON FUNDS MOBILIZATION	9 - 11	3
IV.	ACTION REQUIRED OF THE COMMITTEE	12	3

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.04-56126 (E)

Introduction

1. The present document responds to the mandate in decision IDB.25/Dec.5, in which the Director-General is requested to maintain a continuous dialogue with Member States in order to actively sustain the common resource mobilization effort and to report on the progress made to the Board at its twenty-ninth session. The document should be considered in conjunction with the *Annual Report of UNIDO 2003* (IDB.28/2-PBC.20/2), chapter VI of which provides information on the mobilization of funds for UNIDO services during the year 2003 from the various sources available to the Organization.

2. Extrabudgetary funding for the delivery of UNIDO services is extremely important, given the very limited availability of funding for technical cooperation activities from the regular budget. In recent years approximately half of the extrabudgetary funding obtained by UNIDO related to the specific objectives of the Montreal Protocol and the Global Environment Facility (GEF), and the other half was provided by governmental contributions using the Industrial Development Fund or the trust fund mechanism. It is evident that these governmental contributions are essential for the implementation of the other programme priorities as defined in the medium-term programme framework, 2004-2007 (GC.10/14).

I. STRENGTHENED INTEGRATION OF SERVICE MODULES

3. Mobilizing funds for programmes and projects developed by UNIDO in close cooperation with its clients depends on matching the requirements for assistance on the one hand, and the priorities of donors and the types of funds available and their objectives on the other. Although the current UNIDO priorities, as embodied in the corporate strategy and the service modules, respond very well to the international development priorities, it has been found that several of the service modules, particularly when presented as "stand-alone", do not appear to easily match donor funding priorities, and that the link between these activities and the Millennium Development Goals appears not to be evident. It was therefore decided earlier this year to simplify and streamline the overall definition and presentation of UNIDO's portfolio of activities around four thematic priorities:

- **Poverty alleviation through productive activities**: Including the private sector/ enterprise development activities and rural and women entrepreneurship development; agro-based industries, including reduction of post-harvest losses and food security activities; improving the policy and regulatory environment for private sector/SME development and the promotion of investment in these sectors;

- **Trade capacity-building**, including activities related to strengthening standards, quality, metrology and accreditation infrastructure in developing countries; sectoral upgrading activities; food safety and export-oriented aspects of agro-industries; export consortia and partnership/supply chain activities related to small and medium enterprises; and most investment and technology promotion activities.

- **Energy and environment**, including development of rural energy/renewable sources of energy, POPs, international waters and other GEF-funded activities, and the cleaner production programme complemented with (cleaner) technology transfer and related investment promotion activities, and the programme related to the implementation of the Montreal Protocol.

- **Assistance to countries emerging from crisis situations**, including the diagnostic phase, i.e. identification of industrial recovery needs and required support; actual assistance in rehabilitation and reconstruction of key industries and infrastructure supplying basic needs; promotion of job/income-generating activities within the framework of the UNIDO service modules and in order to mitigate the vulnerability of people.

4. Each thematic priority represents a key development dimension that can be addressed in a comprehensive and integrated manner by UNIDO through a combination of several service modules as described above. Each has a clear UNIDO identity and strength as the core of the integrated approach, and should enable UNIDO to claim a lead role. It is anticipated that this revised presentation and strengthened integration of UNIDO's response to international development priorities will improve the understanding of the potential contributions UNIDO can make to address these priorities. The intention is that both future integrated programmes, and also individual "stand-alone" projects, apply to the extent feasible the integrated response to specific problems and objectives.

5. In order to ensure that this new, and more integrated approach is rapidly applied in the formulation and implementation of projects and programmes, the internal review and funds allocation process has been revised, with four specialized review committees established covering the priority themes. This approach is expected to improve the effective integration of the

various tools and capacities of the Organization, a key element of the Business Plan.

6. In terms of mobilizing funds, it is expected that the sharpened focus and integrated presentation, by clarifying the contributions of the different activities of UNIDO to the international development objectives, will improve the response of donors, especially at the country level. In addition, it is anticipated that thematic/strategic partnerships with individual donors, focused on individual priority themes, either at the global level or within integrated programmes at the country or regional level, may be facilitated. It is intended to step up the promotion of the integrated UNIDO response to these key development issues, where possible with the direct involvement of specific interested donors.

II. PROGRAMMING THRUST FOR THE BIENNIUM 2004-2005

7. For the biennium 2004-2005, priority in respect of programming of funds available to the Organization will continue to be given to the following three areas:

(a) The integrated programmes focused on the thematic priorities;

(b) The development and implementation of core concepts within the thematic priorities as also identified in the document *Operationalizing UNIDO's corporate strategy—Services and Priorities for the medium term* (distributed to Permanent Missions on 5 March 2004). It may be noted in this context that the new initiatives that had been developed by the Organization during the previous biennium have largely been integrated into the four thematic priorities (para. 3 above);

(c) Priority "stand-alone" activities in countries where no integrated programme is operating. Such stand-alone projects will be developed and implemented within the eight service modules, and follow the approach of the priority themes (as mentioned in para. 4 above).

8. In terms of geographical distribution, priority will continue to be given to the least developed countries (LDCs) and Africa. For Africa, the African Productive Capacity Initiative, launched by the African Ministers of Industry in the context of NEPAD, is expected to provide a new stimulus and focus for the integrated programmes in the region.

III. PROGRESS ON FUNDS MOBILIZATION

9. In 2004 some developments and initiatives launched in previous years are bearing fruit. Following the accession of UNIDO to the United Nations-European Union (EU) Financial and Administrative Framework Agreement in October 2003—the first project agreement under this framework—was signed with the European Commission Delegation in Pakistan in May 2004. This project, which aims at strengthening the trade-related infrastructure in the country, has a budget of €2.3 million, with an EU contribution of €2.1 million. In March 2004, a joint EU/UNIDO programme formulation mission was undertaken to Bangladesh, as a result of which a €7.7 million project is currently being reviewed by the European Commission. Work is also under way for a joint project in Nepal, and it is anticipated that further similar projects will be developed in the coming years. One important issue with EU funding under the Framework Agreement is, however, that third-party contributions to projects are also anticipated.

10. The positive developments during previous years in terms of improved UNIDO access to GEF funding will result in important project approvals in the coming months, certainly before the end of the year. Separately, and under the fourth thematic priority, following the first project approved in 2003 for funding by the Japanese-funded United Nations Human Security Trust Fund, a further two projects have been accepted and will commence operation this year for Afghanistan and Bangladesh.

11. In view of the expectation that the funding under the Montreal Protocol is expected to remain at similar levels as in previous years, and that governmental contributions will be maintained or show an increase, it is likely that total new funding mobilized in 2004 will exceed $100 million, which would enable UNIDO to maintain a corresponding increase in the level of programme delivery in the coming years.

IV. ACTION REQUIRED OF THE COMMITTEE

12. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

The Industrial Development Board:

(a) Takes note of the information contained in document IDB.29/4-PBC.20/4;

(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2005 and 2006 in accordance with the priorities defined in the medium-term programme framework, 2004-2006 (GC.10/14).

(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO;

(d) Also encourages all donors to consider contributing programmable funds, specifically to enable UNIDO to implement the integrated programmes in a coordinated manner and achieve the synergy and increased impact envisaged in the integrated programme concept;

(e) Encourages the Secretariat and the Member States to work closely together on selected priority themes, with a view to promoting and mobilizing funding for the implementation of these important activities in response to international development priorities.